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The Web-Based Accountability Practices in Social Enterprises: Validating the Stakeholder Theory

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Abstract

In the absence of shareholders, accountability practices in social enterprises are determined by the strengths of stakeholders. The stakeholder theory postulates that accountability systems depend greatly on the power and number of stakeholders. With the advent of technologies, it is increasingly common to use internet-based technologies in addressing accountability in social enterprises as they pursue hybrid objectives which attempts to balance off both social and economic missions. In view of this, the present study aims to validate the stakeholder theory, focusing on the effect of web-based accountability practices in social enterprises. Based on the Social Enterprise Alliance (SEA) database, all the social enterprises in the database were selected after controlling the type of formation for each social enterprise. The three dimensions of web-based accountability practices showed a low disclosure level on the extent of web-based accountability practices incorporating the three dimensions of finance, performance and political accountability. The results also revealed that social enterprises have less interest in disclosing their financial accountability practices through web sites.

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1. Introduction

The issue of holding organizations and their management accountable for their actions has long been a matter of concern in social enterprises. In the absence of shareholders, accountability practices in social enterprises are determined by the strengths of stakeholders. Recent advancement in internet-based technologies among social enterprises has led to considerable potential in promoting and demonstrating organizational accountability. It is increasingly common to use internet-based technologies in addressing accountability in social enterprises as they pursue hybrid objectives which attempts to balance off both social and economic mission. It is therefore proposed

that in order to understand the web-based accountability practices of social enterprises in Malaysia, there is a need to consider disclosure dimensions, which focus on the transparent provision of key information of the organizational financial accountability, performance accountability and political accountability. Our current study aims to validate the stakeholder theory, focusing on the effect of web-based accountability practices in social enterprises. All the social enterprises in the Social Enterprise Alliance (SEA) database were selected after controlling the type of formation for each social enterprise.

2. Review of Literature

In general, we might refer to the social enterprise's web-based accountability practices as any online reporting, feedback or stakeholder input and engagement mechanisms that demonstrate or enhance accountability. Hence, it would be helpful to have a brief idea on how the internet is currently changing social enterprise practices so that what accountability resembles in an online context can fully be appreciated. The rapid advancement of web technologies throughout social enterprises has brought with it considerable potential for organizational change (Hackler & Saxton, 2007) and has helped create the framework for the appearance of a more accountable era characterized by increasingly comprehensive and visible organizational practices. From the demand perspective, internet-based technologies are providing stakeholders with the increasing ability and interest to gain access to information they deem important. More and more people are getting their information from the web, thus it is affecting how they volunteer with, give to and interact with social enterprises (Gordon, Knock, & Neely, 2008). In turn, from the supply perspective, internet-based technologies have led to an increased ability of social enterprises to disclose operational and financial information. The technology also facilitates stakeholder inclusion in organizational decision making through the use of interactive electronic networking capabilities and lowering participation costs.

Accountability facilitates the proper functioning of the social enterprise environment in which it expresses the interests of the community and ensures that the management correctly addresses them. Accountability in general involves both answerability and enforceability. Ebrahim (2003) suggests a broader approach to accountability as "the means through which individuals and organizations are held externally to account for their actions and as the means by which they take internal responsibility for continuously shaping and scrutinizing organizational mission, goals and performance." The core of accountability is answerability, since being accountable means having the obligation to answer issues regarding activities, actions and decisions (Brinkerhoff, 2004). Recent literature underlines the multi-dimensional nature of non-profit accountability. According to Brinkerhoff (2004) and Jordan and Van Tuijl (2006), three dimensions of accountability emerge which is financial accountability, performance accountability and political accountability. First, financial accountability can be defined as "tracking and reporting on allocation, disbursement and utilization of financial resources, using the tools of auditing, budgeting and accounting" and "deals with compliance with laws, rules and regulations regarding financial control and management" (Brinkerhoff, 2001). Second, performance accountability refers to "demonstrating and accounting for performance in light of agreed-upon performance targets," with the main focus on "services, outputs and results" (Brinkerhoff, 2001). Lastly, political accountability which relates to the procedures and mechanisms that ensure the organization fulfills the public trust involves and engages stakeholders and indirectly responding to their legitimate expectations and needs.

For social enterprises, mission is at the heart of performance accountability because it provides both "verbal link between the presumably deeply held promises and the conduct of those representing it" (Lawry, 1995) and a basis for evaluating organizational performance.

3. Methods

3.1. Sampling

The target population of the respondent was streamed from the Social Enterprise network which is also known as the Social Enterprise Alliance (SEA). The social enterprise is registered under the SEA and can be divided

according to its formation in Malaysia which is society, private company (Sdn. Bhd) or public company (Bhd). Table 1 represents the list of 30 social enterprises (SEs) and its formation.

Table 1. List of SEs

No	Name of Social Enterprise	Principal Activity	Formation
1.	ArkitrekSdn.Bhd	Environment	Sdn.Bhd
2.	Animal Projects & Environment Education Sdn Bhd	Environment	Sdn.Bhd
3.	Biji-Biji Design Sdn.Bhd	Environment	Sdn.Bhd
4.	Drug Free Youth Association	Youth	Society
5.	DIB Coffees of Hawaii	Persons with Disability	Sdn.Bhd
6.	Dialogue in the Dark Malaysia	Persons with Disability	Sdn.Bhd
7.	Eden Handicap Service Centre Berhad	Persons with Disability	Berhad
8.	EcoKnights	Environment	Society
9.	Earth Heir	Arts and Culture	Society
		Extreme poverty	
		Orang Asli Welfare	
10.	Eats, Shoots and Roots	Environment	Society
11.	Elevyn	Arts and Culture	Sdn.Bhd
		Others	
12.	Edunation	Education	Society
13.	EYE Project Management	Youth	Sdn.Bhd
14.	The Frangipani Langkawi	Environment	Sdn.Bhd
15.	Gerei OA	Orang Asli Welfare	Society
16.	Hospitals Beyond Boundaries	Healthcare	Society
17.	Kakiseni	Arts and Culture	Society
18.	Leaderonomics	Youth	Society
19.	My Khatulistiwa Sdn.Bhd	Corporate social responsibility	Sdn.Bhd
		Others	
20.	The MAD Experience	Extreme poverty	Sdn.Bhd
21.	SOLS 24/7	Education	Society
		Extreme poverty	
		Youth	
22.	EPIC Homes	Others	Sdn.Bhd
23.	Ecocentric Transitions	Education	Society
		Environment	
24.	Quickcauses	Others	Sdn.Bhd
25.	Recovr	Environment	Sdn.Bhd
		Persons with Disability	
26.	TRACC	Environment	Society
27.	UndiMsia!	Education	Society
		Youth	
28.	United Voice	Persons with Disability	Society
29.	Wild Asia	Environment	Sdn.Bhd
30.	The Zhariff Initiative	Corporate social	Society

responsibility
Persons with Disability

3.2 Web Accountability Index

To examine the level of information disclosed by SEs, a web disclosure index on accountability is used. The index is adopted from a study conducted by Dainelli et al. in 2013. Based on Social Enterprise Alliance (SEA) network, 30 SEs were registered under the SEA, which acts as a platform in guiding SEs. All the SEs selected has websites. Each of the SEs' website dedicated to accountability has been analyzed based on the index to measure the level of disclosure. The process that follows is the reviewing of specific sections that indicates the information of items and reviewing of the annual report that is made available on the websites. The total number of 18 items is identified from the index and this can be classified under three categories namely financial, performance and political accountability. Table 2 lists all the items and dimensions for the index.

Table 2. Items of accountability index

Dimensions	Items
Financial	Financial statement
	Account notes
	Management commentary
	Auditor report
Performance	Vision/mission statement
	Governance structure
	Human resource organisation
	Strategic plan
	Results of research activities
	Key performance indicators
	Risk report
	Visitor survey
	Results of educational activities
	President/director statement
Political	Management of collections and acquisition of works of arts
	Voluntary work report
	Management remunerations
	Report on donations and benefactors

In the study conducted by Dainelli, Manetti, & Sibilio (2013), binomial logic was used to record the items for measuring disclosure levels. In the process of recording, one (1) will be assigned if the items are disclosed and zero (0) if the items are not disclosed. The total score of each dimension is then calculated at the end of the process to identify the total score of the accountability index.

3.3 Web Accountability Index Scores

Web-based accountability practices can be referred to as any online reporting, feedback, and/or stakeholder input and engagement tools that serve to demonstrate or enhance accountability. It has been mentioned earlier the multidimensional nature of accountability. The key dimensions of understanding web-based accountability practices of organisations proposed by Brinkerhoff (2004) and Jordan & Van Tuijil (2006) is through disclosure of:

- The transparent provision of finances accountability
- The transparent provision of performance accountability
- The transparent provision of political accountability

The total score of all dimensions (financial, performance and political) if disclosed in their websites will result in an 18 score index. Each of the financial accountability, performance accountability and political accountability consists of 4 items, 9 items and 5 items respectively. Table 2.1 summaries the scopes of all dimensions.

Table 2.1 Summary of dimensions

Dimensions	Scope
Financial (4 items)	financial accountability focuses on tracking and reporting on allocation and utilization of financial resources, using the tools of management control and auditing
Performance (9 items)	Demonstrating and reporting performance of organisation based on agreed-upon performance targets (missions) and focuses on inputs, outputs, outcomes and impacts.
Political (5 items)	Focus on procedures and mechanism which ensure to fulfils the public trust, engages and involves stakeholders, acts in accordance with agreed-upon standards of probity, ethics, integrity and professional responsibility

3.4 Web Accountability Index Inter-Rater Reliability Test

The content analysis technique in this study is to measure the inter-rater reliability and to ensure the reliability of the content analyses. The index developed by Dainelli, Manetti, & Sibilio (2013) was drawn from several previous studies by selecting relevant items to the literature of accountability. Inter-rater reliability is a measure of agreement to test the consistency among raters (Sikka, 2006). Initially, three raters who have knowledge in the accounting field independently coded five randomly selected websites. The content of each websites was coded individually into the Web accountability index score sheet. Next, the websites are exchanged between the raters. The score entered by each rater for each of the organization's websites are then compared to identify any differences or disagreements. The scores are then analyzed according to their category of accountability.

A minimal disagreement was found, and the inter-rater reliability was accepted after all the disagreement and discrepancies were resolved. Most of the disagreement and discrepancies were errors of misinterpretations and were easily resolved. This inter-rater agreement rate was obtained by comparing all the scores obtained from each of the rater. Using 18 items in the Web Accountability index by raters, (5 websites for one rater; there are three raters) there were five (5.55%) disputed items of accountability among raters. On average, the inter-rater agreement rate for all items of accountability was 94.4% (that is 17/18). Once the instrument was pretested, the websites of all 30 SEs were then analyzed using content analysis procedure to quantify the total extent of disclosures.

4. Results and Discussions

4.1 Analysis of Financial Accountability

The findings in this study show that none of the social enterprises selected for this study reported any financial statement, notes to the accounts, management commentary or auditor report. This could be due to the fact that social enterprises are not obligated to reveal their financial standings to the public. By law, this is not a mandatory requirement for social enterprises

4.2 Analysis of Performance Accountability

Performance accountability listed for this study includes the vision/mission statement of social enterprises, their governance structure, human resource organisation, strategic plan, results of research activities, key performance indicators, risk report, visitor survey and results of educational activities. Of these nine performance indicators, it was found that only four were reported. They include vision/ mission statement 60% (18), governance structure 13% (4), human resource organisation 37% (11) and visitor survey 10% (3). There were no records for strategic plan, results of research activities, key performance indicators, risk report and results of educational activities.

4.3 Analysis of Political Accountability

The indicators for political accountability used for this study are president/director statement, management of collections and acquisition of works of arts, voluntary works report, management remuneration and report on donations and benefactors. There were only records for president/ director statement 3% (1), voluntary work report 50% (15), and report on donations and benefactors 10% (3). There was no record for management of collections and acquisition of works of arts and management remuneration reported.

4.4 Analysis of Accountability Disclosure

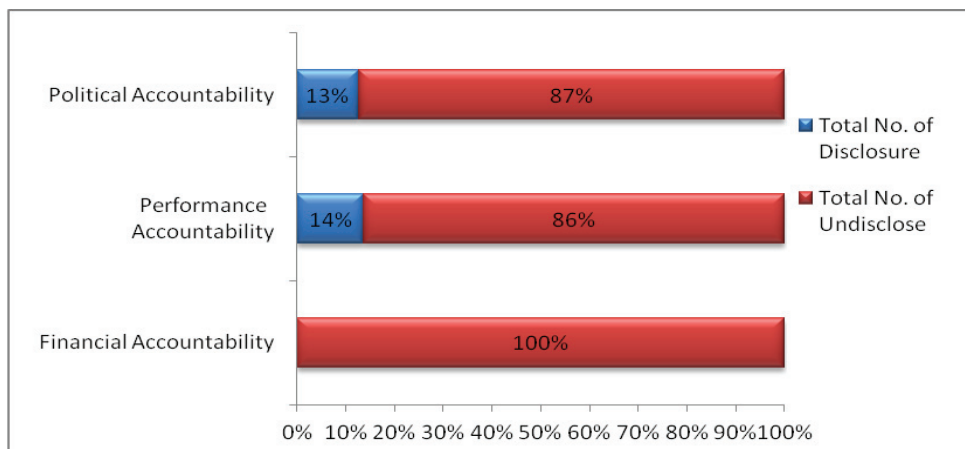


Figure 1. Accountability Disclosure of Social Enterprises

Figure 1 shows the analysis of accountability disclosure based on the three major accountability indicators for this study which are financial accountability, performance accountability and political accountability. The figure shows that only political accountability and performance accountability have disclosure of accountability which are 14% (37) for performance accountability and 13% (19) for political accountability. Overall, this would mean that 10% of the SEs provided accountability disclosures and 90% of the accountability of SEs remain undisclosed. This can further be clarified in table 3 below.

Table 3. Tabulation of Accountability Disclosure

Accountability Disclosure	Total no. of Disclosed Information	%	Total no. of Undisclosed Information	%
Financial Accountability	0	0%	120	100%
Performance Accountability	37	14%	233	86%
Political Accountability	19	13%	131	87%
Total	56	10%	484	90%

Table 3 shows the tabulation of accountability disclosure. Comparisons of the total number of disclosed and undisclosed information shows that the greater amount of information by SEs were undisclosed (90%).

5. Conclusion

Social enterprises with dual performance objectives of economic and social missions involve accountability to multiple stakeholders. The issue of multiple accountabilities to multiple stakeholders is not only unique to social enterprises, but also to traditional businesses and non-profit organizations as a whole. Business organizations may have many stakeholders such as suppliers, distributors, investors, customers and also face demand of accountability from the external stakeholders such as regulators, communities and other non-governmental organizations (NGOs). The stakeholder theory suggests that organizations may prioritize their stakeholders on the basis of the power and strengths of multiple stakeholders. In the case of social enterprises, the interests of multiple stakeholders are also given priority as they are material to the dual performance objectives of the social enterprises.

Based on the findings of this study, it can be concluded that the tendency of disclosure accountability via website information of social enterprises is generally low. While information was presented for performance and political accountability, none was found for financial accountability from the selected SEs for this study. Even though there were information recorded for performance accountability and political accountability, it was found that the information was still minimal. This shows that there is indeed lack of information provided to stakeholders of SEs and the general public as potential donors. The findings also show that there is a great need for disclosure accountability in SEs. A better and more accountable presentation of data could provide a more accurate and clear representation of the SEs. It can provide for credibility of the organization as part of a professional body without any lose of trust by stakeholders towards their appropriation of funds in relations to financial accountability, performance accountability and political accountability.

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